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RUEHLP/AMEMBASSY LA PAZ 2876
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RUEHSP/AMEMBASSY PORT OF SPAIN 3688
RUEHQT/AMEMBASSY QUITO 2972
RUEHSG/AMEMBASSY SANTIAGO 4103
RUEHDG/AMEMBASSY SANTO DOMINGO 0631
RHEHNSC/NSC WASHDC
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RUMIAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000440

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
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NSC FOR RKING

E.O. 12958: DECL: 04/03/2019
TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)
SUBJECT: VENEZUELA: SCHLUMBERGER BULL-ISH ON PDVSA

REF: A. (A) CARACAS 288
1B. (B) CARACAS 282
1C. (C) CARACAS 136

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b) and (d).

1. (C) SUMMARY: PDVSA and Schlumberger are exploring areas of possible cooperation, but press reports of a joint venture are premature. Since March 11, PDVSA has made regular payments to Schlumberger (roughly 5% of outstanding receivables), is current with February and March invoices, and plans to slowly catch-up on all outstanding receivables due. Schlumberger's current activity levels in Venezuela point to a continued decrease in Venezuelan crude production. Schlumberger and France are moving to fill a perceived void created by poor bilateral relations with the U.S. by providing professional training to PDVSA's technical and managerial staff. END SUMMARY.

2. (C) Petroleum Attachi (PetAtt) met with Schlumberger Venezuela President, Ivan Betancourt (strictly protect throughout), on April 2, 2009. PetAtt asked about Rafael Ramirez's (Minister of Energy & Mines) declaration on March 16 that PDVSA and Schlumberger have agreed to form a joint venture (JV). Betancourt clarified that the two parties signed an MOU to explore opportunities to form a JV. He maintained that this is not an issue as Schlumberger has JVs with other national oil companies, such as Saudi Aramco and Pemex. In regards to a possible JV with PDVSA, he said they are only looking at rig operations, maintenance, and efficiency processes along with some basic technology areas [NOTE: Schlumberger currently has nine oil rigs in Venezuela]. Any potential JV would have a well-defined scope and area of competence but Schlumberger is not going to entertain proposals to form a JV that includes access to its core technologies. (Note: PDVSA officials have told the press that prospective JV partners would be required to transfer their technologies to Venezuela. End Note.) According to the MOU, the two parties have ninety days to discuss the possible joint venture, but have not yet sat down at the table together. [NOTE: Schlumberger's Vice President for Latin America was in Venezuela the week following Ramirez's announcement. It is likely the parties signed the MOU during that visit. END NOTE.]

¶3. (C) Betancourt added that Schlumberger already has training agreements with PDVSA and is looking to expand in this area.

Specifically, the service company is providing professional development to PDVSA's technical and management staff. He also referred to a local professional development program based in the Bolivarian University of Venezuela and supported by the French Institute of Petroleum. According to press reports, the program graduated its first class of students with specialties in refining, oil management, and geological sciences this week. He characterized the average tenure of a PDVSA professional as five years and indicated that there is a strategic opportunity that the U.S. is missing to train the next generation of Venezuelan oil professionals [NOTE: The December 2002-March 2003 oil strike resulted in the GBRV firing over half of PDVSA personnel (estimated at 19,000 of a total workforce of 39,000), including two-thirds of its professional managers and university graduates with over 200,000 years of experience
END NOTE].

Payments

¶4. (C) Betancourt told PetAtt that PDVSA has made weekly payments to Schlumberger since March 11, the first payments received since November 2008. He believes that Halliburton and the other major service companies are receiving similar payments. Payments have averaged 5-7% of outstanding receivables and have been mostly denominated in Bolivars (Bs), but Schlumberger received \$6 million this week. [NOTE: Betancourt would not quantify PDVSA's total debt to Schlumberger, but outside industry experts estimate it as high as \$800 million. END NOTE.]

Betancourt did not know offhand whether PDVSA's payments in Bs and USD conform to their contracts. He confirmed that approximately 30% of the

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total debt is "unbilled," or services provided that fall outside of current contracts and need to be negotiated before they can be invoiced

¶5. (C) If PDVSA continues making weekly payments, Betancourt projects that it will take PDVSA six months to pay off all pending receivables due. Betancourt added that PDVSA is current with February and March 200 invoices, has expressed its intention to remain current, and plans to pay off gradually old invoices. With recent payments, Schlumberger is not concerned about maintaining operations in Venezuela. The shortage of CADIVI dollars does not affect Schlumberger because they receive some payments in dollars. Schlumberger is able to cover local operations with the Bs PDVSA pays them and is able to cover dollar expenses with (1) PDVSA's dollar payments and (2) by relying on Schlumberger's parent company.

¶6. (C) Betancourt confirmed that PDVSA issued a letter to all rig operators (specifically mentioning Maersk, H&P, Wilson, CNPC, and Weatherford) requesting negotiation on rig rates effective March 1. PDVSA officials confided to Betancourt that they would not seek retroactive rate adjustments on rig operations.

Operations

¶7. (C) Betancourt stated that Schlumberger's operations have been constant since January [NOTE: The company has a total work force of over 3,000 employees, including 170 expatriates (30-40 managers and the rest are engineers) in Venezuela with operations that span the country. END NOTE.]. He suggested that Venezuela's natural rate of decline approximates 20% and that without increased investment and new activity, crude production will continue to fall. He estimates that Venezuela is exporting 1.7 million b/d and consuming domestically approximately 700,000 b/d, for total production of 2.4 million b/d (he claims that this figure does not include syncrude production).

COMMENT

¶8. (C) Since the February 15 national referendum, it appears PDVSA staff have gone back to work and have focused on cleaning up accounts payable with the service companies. While reports of companies going unpaid continue, it is clear that PDVSA is trying to pacify the major operators. Without increased investment and new drilling activity though, it is likely that production will continue to fall, resulting in less oil revenues and future financial problems for PDVSA and for the GBRV. Oil prices around \$50/barrel may give PDVSA enough revenue to

stay afloat and slowly dig out of its debt. France and Schlumberger are moving to fill a hole created by strained bilateral relations with the U.S. Their interest in developing PDVSA's technical and managerial staff indicates a long-term interest in this market.

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